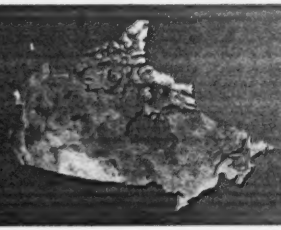

Canadian Natural Gas

›› Monthly Market Update

August 2010

›› Oil and Gas Policy, Analysis and Regulatory Affairs Division
Petroleum Resources Branch
Energy Sector

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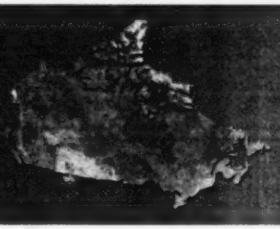

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Foreword

The Canadian Natural Gas: Monthly Market Update is a monthly analytical paper prepared by the Petroleum Resources Branch of Natural Resources Canada. The report provides the most recently available data on natural gas prices and related market fundamentals.

Please direct any comments or questions to Stacey Power at (613) 992-1023, or by email at Stacey.Power@nrcan.gc.ca

Executive Summary

The North American natural gas market is currently experiencing a supply glut. While year to date Canadian production has fallen by almost 5% since 2009, natural gas production in the United States is achieving record levels, largely on account of shale gas development. Soaring production levels are likely to continue, as the number of rigs drilling for natural gas in the US recently hit an 18 month high.

The oversupplied market has led to natural gas prices that are falling well below the 5-year average AECO price of 6.60 CAN$/GJ. However, prices in August 2010 are up 19% from August 2009, suggesting a slight improvement in market conditions. Sales, exports, and imports are also up compared to August 2009, while heating degree days, production, storage and drilling are down.

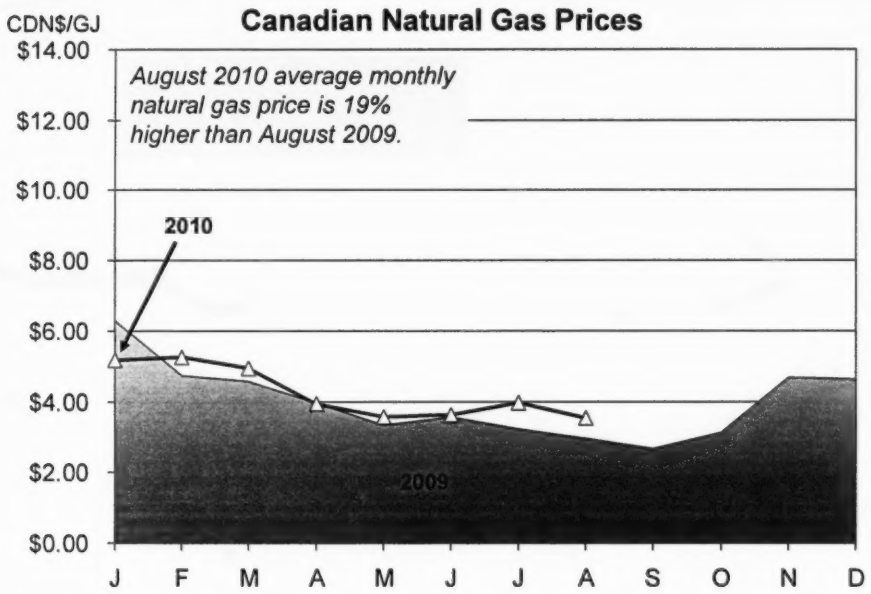
Natural Gas Market Fundamental	Value	Percentage Change	
		Month 2010 vs. Month 2009	Current Month vs. Previous Month
Prices, CAN $/GJ (Aug-10)	3.53	+19%	-11%
Heating Degree Days (Aug-10)	24	-14%	+50%
Production, Bcf (June-10)	381	-5%	-8%
Sales, Bcf (June-10)	158	+14%	-14%
Exports, Bcf (June-10)	246	+7%	-3%
Imports, Bcf (June-10)	48	+38%	-8%
Storage, Bcf (Aug-10)	491	-7%	+8%
Drilling, wells (Aug-10)	152	-40%	-19%

Note: GJ: Gigajoule; Bcf: Billion Cubic Feet

Sources:

- *Crude Oil and Natural Gas (Preliminary)*, Statistics Canada
- *Natural Gas Transportation and Distribution, 55-002*, Statistics Canada
- *Supply and Disposition of Crude Oil and Natural Gas, 26-006*, Statistics Canada
- *Drilling Highlights*, Daily Oil Bulletin website: www.dailyoilbulletin.com
- Canadian Natural Gas Focus, GLJ Energy Publications Inc.
- *Natural Gas Storage Survey*, Canadian Enerdata Ltd.
- *Natural Gas Export Statistics*, National Energy Board website: www.neb-one.gc.ca
- Canadian Gas Association, website: www.cga.ca

Figure 1

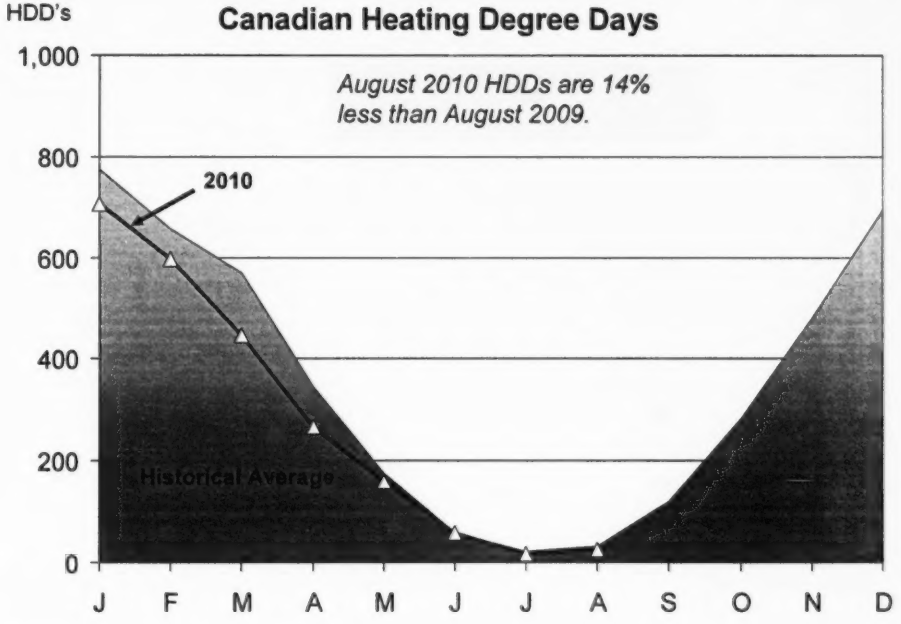


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market, a.k.a. AECO . The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

AECO natural gas prices averaged CDN $3.53/GJ in August 2010, a decrease of 11% from the previous month but a 19% increase from the August 2009.

Figure 2



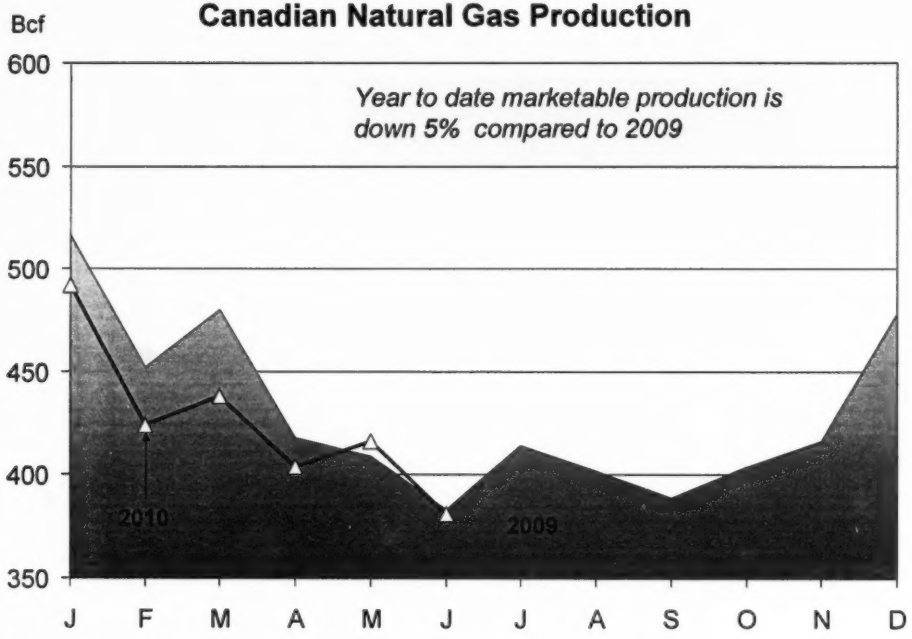
Source: Canadian Gas Association, NRCan

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If a winter is unusually cold, demand for space heating will respond accordingly and natural gas prices will tend to be stronger. However, during a mild winter, natural gas demand for space heating will be weaker, which will tend to moderate prices.

In August 2010 there were 24 HDDs, 14% less than August 2009, but 50% more than the previous month. On average, August 2010 had 23% fewer HDDs than normal.

Figure 3

Canadian Natural Gas Production



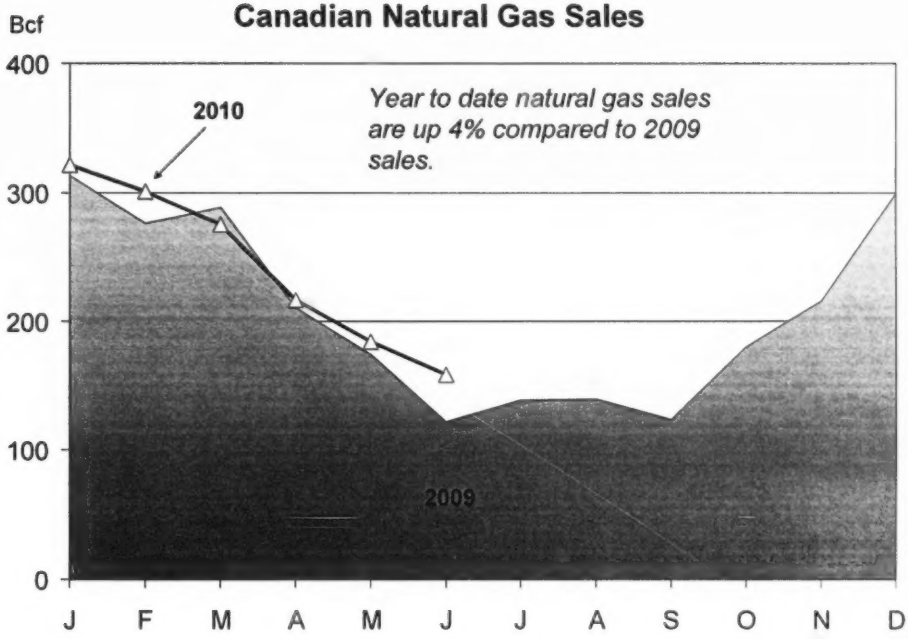
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

Marketable natural gas production in June 2010 was 381 Bcf. Production levels were 8% lower than the previous month, and 5% lower than the previous year.

Figure 4

Canadian Natural Gas Sales



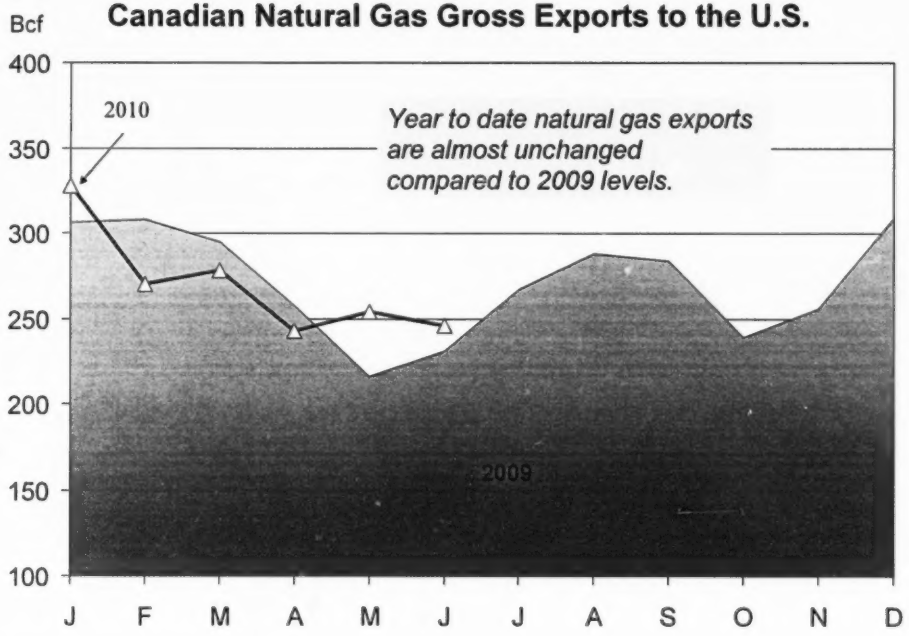
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in June 2010 were 14% lower than the previous month but 14% higher than sales in June 2009.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



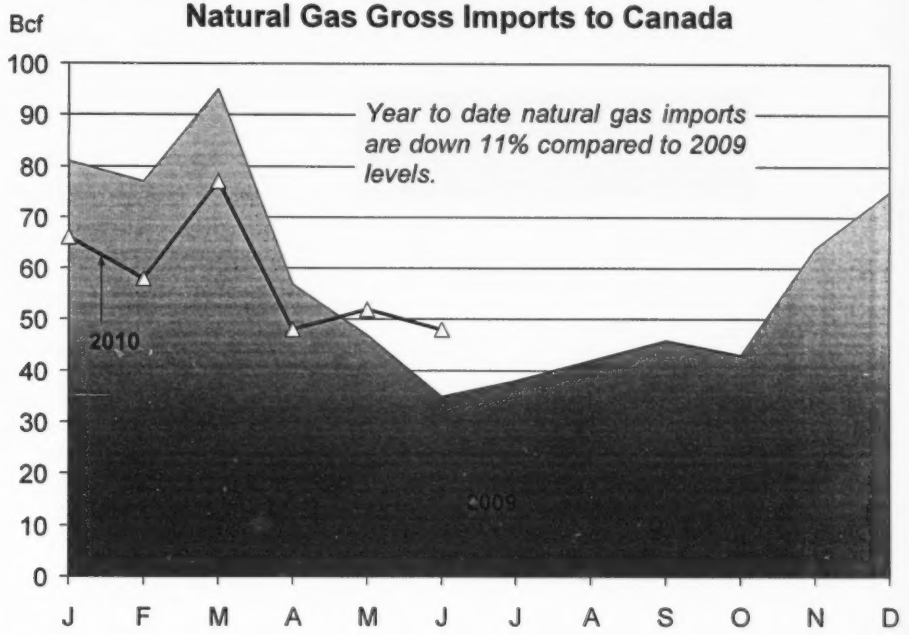
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met mostly by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In June 2010, natural gas exports to the U.S. were 246 Bcf. This is a 3% decrease from the previous month, but a 7% increase from the same time last year.

Figure 6

Natural Gas Gross Imports to Canada



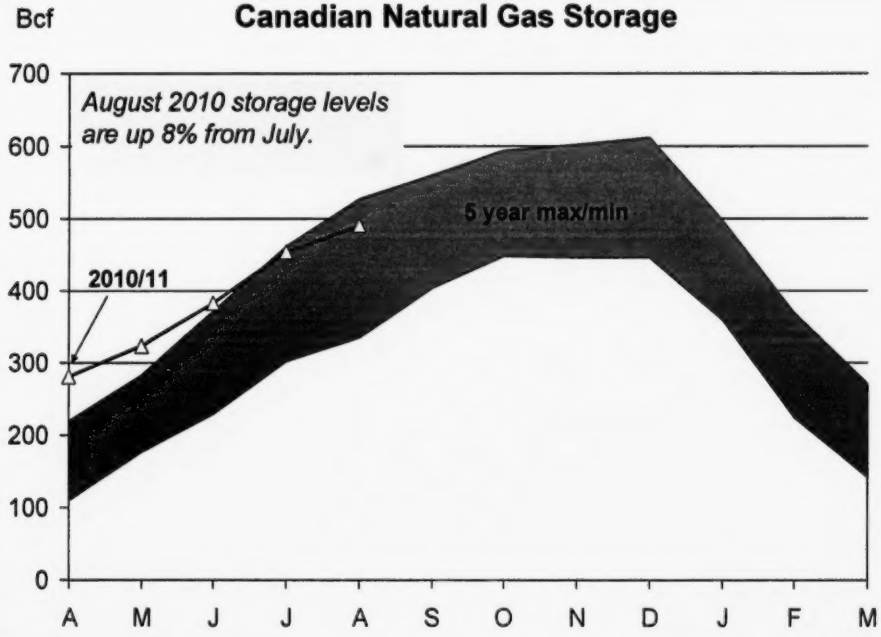
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In June 2010, natural gas imports to Canada were 48 Bcf, 8% less than the previous month, but 38% more compared to June 2009.

Figure 7

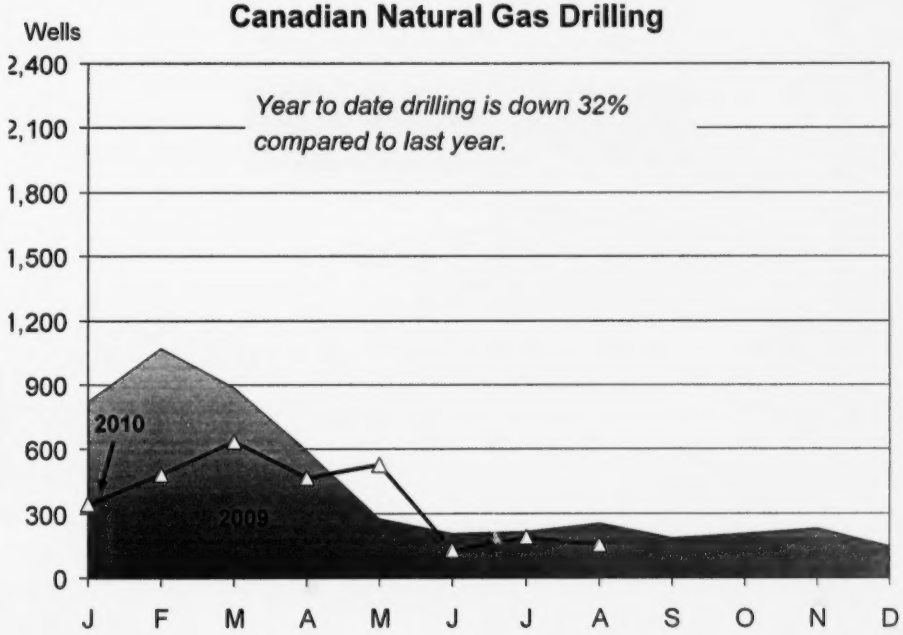
Canadian Natural Gas Storage



Source: Canadian Enerdata

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 7 illustrates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories increased by 37 Bcf from July to August 2010. Storage inventories in August 2010 are down 7% from August 2009 levels.

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

152 natural gas wells were drilled in August 2010, a decrease of 19% from the previous month, and a decrease of 40% from the previous year.